


Members of the Board and Management
Jefferson County Board of Education
Louisville, Kentucky



In planning and performing our audit of the financial statements of the Jefferson County Board of Education (the "Board") as of and for the year ended June 30, 2009 in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Auditing standards require that we specifically report "control deficiencies" that are considered "significant deficiencies" and/or "material weaknesses". Following are definitions of these terms:

- **Control Deficiency.** A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- **Significant Deficiency.** A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control.
- **Material Weakness.** A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the District-wide financial statements will not be prevented or detected by the Board's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. All matters discussed on the following pages are opportunities for strengthening internal control over financial reporting and operating efficiency.

The Board's written responses to the comments identified in during our audit has not been subjected the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the members of the Board, and others within the District, and the Kentucky Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to serve the Board and are available at your convenience to answer questions or assist in the implementation of these suggestions.

Strothman & Company PSC

Louisville, Kentucky
November 2, 2009

I. Capital Assets

Condition & Criteria: It was noted that there was some capital assets missing from the capital asset listing.

Cause: The school Parent Teacher Association failed to communicate the purchase of capital assets to the Property Auditors.

Effect: Capital Assets were purchased at the schools, the assets were never tagged and therefore never depreciated.

Recommendation: Strothman & Company recommends enhancing the communication between the property auditors and the school Parent Teacher Associations. By working together, the Board can ensure that all capital assets are recorded timely and accurately. Procedures prescribed by the Board require the cost centers notify the property auditors anytime an asset is added or removed from their site.

Management Response: We are currently working to finalize a fixed assets handbook, which will be distributed to all employees. Our goal is to educate all JCPS employees, especially school-based staff who may receive donated items from their PTA, booster club, or the public, concerning proper fixed asset accounting.

Condition & Criteria: During review of capital assets, there were instances where, contrary to Board policy, property disposals were not approved by the appropriate personnel. In particular, a capital asset was given to another school. It was also noted that incorrect retirement dates, and incorrect retirement reason codes were entered into Munis.

Cause: Employees failure to comply with Board policy

Effect: Asset was never removed from the fixed asset software. Incorrect retirement dates and incorrect retirement coding can lead to inaccurate accounting.

Recommendation: In order to ensure that disposal of Board capital assets are in line with Board objectives, personnel should be reminded of the policy and required to comply with it.

Management Response: We plan for fixed asset disposals and transfers to be included in our fixed assets manual.

II. Payroll

Condition & Criteria: During payroll testing, errors in the calculation of gross pay were noted. In particular, two employees were hired the second week of a pay period and had worked the first half of the pay period as subs.

Cause: These employees were over paid for the first week and had retirement taken out of their checks when subs don't receive retirement. The overpayment was due to the employees being paid at their new rate instead of the sub rate on the addendum check. When online extra service is keyed by the cost center, it pulls in the current rate.

Effect: Such errors can cause an over or under payment of wages and misstate the financial statements if the errors are not detected and corrected.

Recommendation: We recommend that as a routine procedure, the accuracy of the payroll calculation be rechecked by an employee other than the one originally preparing the payroll.

Management Response: We will coordinate with Human Resources to align the effective dates of personnel changes with the payroll calendar and give special notification when this is not possible.

Condition & Criteria: During payroll testing, it was noted that a new hire was not listed as an employee on the school's "Payroll Location Time Report", but this employee appeared on the Payroll Journal for the school's location.

Cause: No supporting documentation was available for the payroll clerk to change the school's payroll.

Effect: Such errors can cause an over or under payment of wages and misstate the financial statements if the errors are not detected and corrected.

Recommendation: We recommend that as a routine procedure, the accuracy of the payroll calculation be rechecked by an employee other than the one originally preparing the payroll.

Management Response: This employee was left off the time and attendance reporting. Payroll confirmed their work verbally but did not properly document this step. We will review this with the department to ensure that it doesn't happen in the future.

Condition & Criteria: During payroll testing, it was noted that an employee submitted and was paid for the same time frame on extra service from two different programs.

Cause: Lack of adequate controls over the extra service payroll

Effect: Overstatement of payroll expense

Recommendation: Although the overpayment has been recouped, Strothman & Company recommends that the Internal Audit department test controls over the extra service payroll.

Management Response: In our current payroll system, we do not have adequate controls to protect against this; however, we had this programmed into the new Munis time and attendance system. Once we implement Munis payroll, this will no longer be a concern. For the time being, Internal Audit is performing a significant number of reviews to minimize the risk of duplicate payment.

III. Revenue Recognition

Condition & Criteria: During our review of the revenue reconciliation in the School Food Service Fund, it was noted that a revenue item that should have been recorded in 2008 was inadvertently recorded in 2009.

Cause: Employee error

Effect: Such errors can cause misstatements in the financial statements if the errors are not detected and corrected.

Recommendation: We recommend that as a routine procedure, the accuracy of the revenue recognition be reviewed regularly to ensure accuracy in the financial statements.

Management Response: This occurred during the transition year when School Food Services was implementing full use of the Munis Accounts Receivable module. Normally, our extensive controls identify all material accounts receivable and records them in the correct period. We expect items such as this to be recorded correctly at all times in the future.

IV. Technology Issues

Wireless Security

Condition & Criteria: Currently the Board has wireless access points to allow for connections to the internal network wirelessly. While in the Management Information System area, a wireless access point was discovered. This wireless access point did not ask for any credentials for connection.

Cause: No authentication controls over the wireless network

Effect: Once connected to the Board's network, we could see the servers and computers within the Board's technology network. Without security enabled, users can connect to the Board's network without any type of authentication. Therefore, users which are not authorized to be on the Board's technology network can connect without permission.

Recommendation: We suggest securing any wireless access point that is installed in the Board's technology network.

Management Response: Wireless security was being implemented at the same time the auditors were forming their conclusions. The Van Hoose Education Center was the last of JCPS locations to have this security implemented. Because some wireless devices are older and do not have the facility to implement the RADIUS mechanism mentioned, as those devices are replaced, the new devices will be enabled with the full security plan at that time.

V. Backup Generator

Condition & Criteria: The Board's server room houses data that is being utilized by all schools without any form of backup power supply.

Cause: A power outage could cause loss of data and operational downtime.

Effect: If power is lost to the Board's corporate office, the servers would still be operational for a small period of time on the current uninterruptible power supply's

Recommendation: We suggest installing a natural gas generator to power the server room in case of substantial power loss to the Board's corporate office.

Management Response: Currently, the main JCPS computer room supplies the power needs for networking and telephony for the district. The present uninterruptable power source is running at 82-85% capacity, yielding 20 to 30 minutes of reserve power. JCPS Information Technology has embarked on a server consolidation project utilizing virtual technology. This will eliminate physical servers and use far less power, thereby increasing the uninterruptable power duration. We are currently completing virtualizing our storage space, allowing for less power requirements and better offsite storage. As we complete the existing redesign and consolidation projects, we will consider the full ramifications and costs of extending the capabilities of continuing in the event of an extended power outage.